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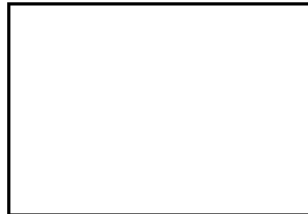
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NATIONAL INTELLIGENCE DAILY CABLE

Monday July 18, 1977

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Monday, July 18, 1977.

The NID Cable is for the purpose of informing senior US officials.

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ALBANIA-USSR: Support for Tirana

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[redacted] Moscow is attempting to exploit Albania's dispute with China for its own advantage, and may be trying to restore relations with Tirana.

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25X1 [] In an unprecedented move on Saturday, *Pravda* came out in support of the arguments that *Zeri i Popullit*, the Albanian party daily, used in its recent editorial attacking the Chinese theory of the "three worlds" as anti-Marxist. Radio Moscow followed up by broadcasting the *Pravda* commentary to Albania. In order to advance Moscow's long-held propaganda argument that Peking is isolating itself, *Pravda* also hinted that Albania has finally stopped following Peking.

25X1 [] The *Zeri i Popullit* attack on China is particularly welcome to the Soviet leadership since much of the Albanian argument against the "three world" theory coincides with what the Soviets themselves have long said about the tenets of Chinese foreign policy.

25X1 [] The US embassy in Moscow believes that the Soviets are making private moves through diplomatic channels to determine whether Albania is now receptive to the restoration of relations. In view of the Albanian regime's ideological inflexibility, however, it is likely that Tirana will reject such approaches, at least at this time. []

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BRAZIL: Troubles in World Market

25X1 [] *Friction between coffee importers and exporters over alleged price manipulations of the world coffee market could seriously weaken the International Coffee Agreement and possibly lead to its dissolution. Established in 1962, the Agreement has been more effective in protecting producers' than consumers' interests.*

25X1 [] Coffee prices have fallen 22 percent since last April when they reached a record high of \$3.32 per pound. Brazil is considering various methods to firm up prices by withholding coffee from the market; it recently announced that it had purchased 467,000 bags of coffee from El Salvador and Madagascar. Other producers have made their usual statements that stocks are low and crop prospects poor, and there have been rumors of an exporters' meeting to consider joint actions to defend prices.

25X1 [] The importing nations assert that coffee purchases by Brazil violate the spirit of the International Coffee Agreement. Several have warned producers that any sales to another

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producing country will affect their own quota under the agreement. The importers also assert that maintaining an artificially high price will cause a loss in consumption that may never be recovered.

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[] The French, in fact, have already banned coffee advertising on national television, and are promoting consumption of coffee substitutes. The producing countries have protested that such actions violate the spirit of the agreement, under which all members are bound to promote coffee consumption.

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[] With supply expected to improve over the next year, and in the face of generally declining demand, prices are not likely to continue for very long at their current, still high level. As prices fall and stocks begin to accumulate, the producers will need an effective international regulatory agreement, which the current squabbling threatens to seriously weaken.

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EDUADOR-ITALY: Possible Aircraft Sales

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[] *Ecuador is attempting to purchase a number of US-licensed ground-attack and interceptor aircraft from Italy. It earlier failed to obtain aircraft and an air defense system directly from the US.*

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[] Italy has requested US approval for the sale to Ecuador of 10, and possibly an additional 29, F-104S interceptor aircraft manufactured under US license. Rome also is seeking US permission to sell Ecuador up to 30 G-91Y ground-attack aircraft, which are equipped with General Electric engines.

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FRANCE: Naval Combat Aircraft

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[redacted] //The French navy this fall will receive the Super Etendard, France's first naval combat aircraft capable of delivering nuclear weapons. The new fighter, which will be stationed aboard the carrier Foch, will enable the navy to carry out tactical nuclear strike missions and significantly enhance its ability to attack enemy ships with conventional weapons.//

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[redacted] the first production version of the Dassault-designed aircraft will be ready next month. The French reportedly have allocated funds to purchase 50 of the planes--enough to keep two squadrons at full strength.//

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[redacted] //When the first squadron is fully equipped, probably within two years, the French may modify their doctrine of tactical nuclear warfare. Alluding to the coming of the Super Etendard, Armed Forces Chief of Staff General Mery suggested in a recent speech that France could possibly use tactical nuclear weapons at sea, in areas not bordering Europe, without necessarily signaling the commencement of a strategic nuclear war. French policy has long tied the use of tactical nuclear weapons in Europe to escalation toward a strategic conflict.//

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[redacted] //The French have been preparing for the arrival of the Super Etendard for some time. Early last year, the Foch, one of France's two aircraft carriers, was fitted with storage facilities for nuclear bombs. The new supersonic aircraft will be able to carry two nuclear bombs and a variety of other weapons. When it joins the fleet, the Super Etendard will replace older Etendard strike aircraft and will also assume the anti-shipping mission of the Breguet Alize. Carrying air-to-surface missiles, the Super Etendard will have an effective antishipping range of more than 300 nautical miles. [redacted]

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FRANCE: Left's Views on Presidency

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[redacted] The Socialists and the Communists have begun to talk seriously about the role of the French presidency should the left win the legislative election in 1978. Although both would like to see a sharp reduction of presidential powers and an increased role for parliament and the prime minister, the Communists predictably want to go further than the Socialists in

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stripping the Gaullist presidency. This issue may become one more area of conflict between them and Socialist leader Mitterrand, who is likely to be a candidate for the presidency in 1981.

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[] The Communists defined their "governmental ambitions" in an article in this month's Party journal. The article enumerates the changes the party wants in France's political institutions should there be a left victory. It foresees a marked shift of authority from the president to the government and parliament that is aimed at reducing President Giscard's prerogatives. The publication of the article coincides with the eighth meeting of the three-party committee that is updating the Common Program of the left, and is probably a good indication of the changes the Communists will advocate.

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[] The Communist party is not aiming at a complete overhaul of the Fifth Republic. It seeks instead constitutional changes that would maximize the influence it already has and increase its influence in areas of government where it is unlikely to have a formal role, such as in the key ministries of Interior, Foreign Affairs and Defense. It wants to define the cabinet as a "collective function," a formula that would in a Socialist-Communist government enable it to play a role in areas where it had no ministerial portfolios.

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[] The Communists are also pushing for a "legislative contract," an idea they inserted into the Common Program in 1972. The contract would bind the government to implementing the Common Program in its entirety, and would severely hobble Mitterrand as prime minister.

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[] French conservatives say the Communist proposals would reduce the role of the President to what de Gaulle once described as "inaugurating chrysanthemums." They are doubtless exaggerating, but it is clear that the Communists see the head of state more as a referee than as an initiator of government policy.

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[] The Communists concede that in their "new type of parliamentary democracy" the President would represent France abroad, but would not have any right to negotiate international treaties; these would be handled by the prime minister and the

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government. More important, the Communists would like to abrogate a 1964 decree that gives the chief of state the authority to deploy France's nuclear and strategic air forces; they would also like to make the government and parliament responsible for decisions on military strategy and national defense.

25X1 [] Mitterrand has long been on record as favoring the restoration of the pre-eminent role of parliament--and the prime minister--as defined in the 1958 constitution. He recently said that the president's increased powers, especially those assumed by de Gaulle after the 1962 amendment providing for direct presidential election, will be reduced and the emergency powers under Article 16 of the constitution abolished shortly after the left comes to power. Mitterrand, however, is strongly opposed to Communist attempts to wangle more influence in government through such devices as a "collective cabinet," and he would stop considerably short of the Communists in curbing the president's powers.

25X1 [] The Communists do not seriously expect all--or even most--of their proposals to be accepted. For several reasons they hope that their proposals will provoke the Socialists into a public debate--and, with luck, into making public commitments.

--They want precise commitments from the Socialists on applying the Common Program. Without them, they fear that Mitterrand, once in power with his party dominating the legislature, would defer programs important to the Communists.

--They want assurances that the Socialists once in power, will not break the leftist alliance and work out a compromise with President Giscard. Although Communist suspicions of Mitterrand's ultimate intentions are probably well founded, an irreparable split before the election or in the first months of a new government appears unlikely.

--They want to show their electorate that they have their own ideas and their own identity, and will not knuckle under to Mitterrand.

--They want their "fair share" of ministerial portfolios and will not accept the role of "water boy" in the alliance. They have hinted that they consider the ministries of Justice and Social Security as key portfolios.

25X1 [redacted] Mitterrand, for his part, wants to reassure a hesitant electorate on his right that he is the master of the left's game and will be able to keep the Communists in line. He wants to make as few commitments as possible in order to have his hands free if the alliance comes to power. His goals are in direct conflict with those of the Communists and the struggle for power between the two is not likely to stop.

25X1 [redacted] The Communists are the junior partner in the alliance, but are not equipped ideologically to accept such a position for long. This has led most observers to conclude that the left alliance may be an effective electoral alliance, but that its prospects for surviving as a government are much less bright.

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JAPAN: Advanced Electronics

25X1 [redacted] *Japan may soon become the major international supplier of advanced electronic components for computer and industrial electronics uses. It already produces some of the best semiconductor components and electronics parts and is one of the few sources of special, high-performance semiconductors needed by US computer manufacturers.*

25X1 [redacted] //During 1976, both US and West European computer manufacturers began showing a strong preference for certain types of Japanese semiconductor components. Some Japanese components, especially those used for computer memories, are reported to be of higher quality and reliability than those available from US manufacturers.//

25X1 [redacted] //Japanese firms are more willing than US companies to assume the financial risks of manufacturing the relatively low-volume components used in the production of computers. Japanese firms are also the only semiconductor manufacturers producing specialized devices and parts to the specifications of computer manufacturers.//

25X1 [redacted] //The superior quality of Japanese components is generally attributed to a higher level of discipline in manual assembly operations, a more highly coordinated research and development program, and better quality control.//

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[] At present, Japanese firms display superiority in only a few selected types of advanced electronic components, but they are likely to achieve it in many other types of industrial electronic parts.

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[] The Japanese electronics industry, with government backing, has begun an ambitious program to develop very-large-integrated circuits for future generations of computers and communications systems. Although the projected completion date is the early 1980s, a more realistic timetable probably would be the mid-to-late 1980s. The most important aspect of the program, however, is joint funding by private industry and government, which provides more financial support for research and development than most US computer manufacturers can afford.

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CHINA: Grain Ship Tonnage Increases Sharply

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[] *//China has increased the bulk carrier tonnage of its merchant fleet by nearly one fourth during the past two months. The purchases, the first since January 1976, coincide with a large increase in China's planned grain imports--9 million tons during the next year compared with 3 million tons during the previous year.//*

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[] *//China has purchased bulk carriers totaling 275,000 dead weight tons since May at a cost of more than \$30 million. These types of ships are designed to carry cargoes such as grain, ores, and fertilizers.//*

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[] *//China now has access to bulk carriers with capacities exceeding 2.5 million dead weight tons--1.5 million tons Chinese-owned and at least 1 million tons chartered.*

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PERU: Political Rumors

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[redacted] //Despite widespread rumors of a palace coup in the past few days, President Morales Bermudez still appears firmly in control of the Peruvian government. Serious new incidents of civil unrest last week over food price increases, and a continuing disagreement in the cabinet over economic policy, are nevertheless still placing strains on the government and on military unity. The government could face an important test tomorrow when a Communist-supported general strike will take place to protest the present austerity measures.//

[redacted] //Rumors that Morales Bermudez had been replaced by a military triumvirate appear to have been scotched over the weekend by a formal denial from the interior minister



[redacted] //The rumors may have been instigated by the left, and particularly the Communist Party, in an effort to destabilize the government following violent demonstrations last week--also reportedly leftist-inspired--which claimed 10 lives in Huancayo, 170 miles east of Lima, and in the northern coastal city of Trujillo.



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[] The military apparently continues to view Morales Bermudez as the person best qualified to lead the country through the present crisis, but he will nonetheless be hard pressed to reconcile opposing views on how to deal with it. He reportedly now believes that the harsh austerity program announced on June 10 failed to take social costs sufficiently into account. The government already has rolled back some food prices, and further measures to lessen the burden on consumers will probably be announced this week.

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[] To provide any long-term solution to its economic problems, however, Peru must still satisfy International Monetary Fund requirements for economic stability in order to qualify for essential foreign loans, and this is where hard bargaining over economic policy is likely to bog down in the cabinet.

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NORTH KOREA: Helicopter Crew to be Returned

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[] North Korean chief representative Han Chu-kyong indicated at the meeting of the Military Armistice Commission Saturday morning that his government would return the captured crew member and the bodies of the three dead crewmen of the US helicopter shot down after straying over North Korean territory Thursday morning.

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[] Han did not say when the transfer would occur, but details on their return were worked out on Saturday. He described Pyongyang's gesture as a humanitarian one, taken in the belief that the US will take steps to prevent a recurrence of such an incident. Han noted matter-of-factly that the US said the intrusion had been "unintentional," and asserted that his government wishes to resolve the issue to prevent the development of a "complicated situation."

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25X1 [] The North Korean claimed the helicopter could not be returned since it had been destroyed. A South Korean observation post has reported that the North Koreans this morning completed dividing the aircraft into three sections and loading them onto ferry boats.

25X1 [] The helicopter crashed approximately five kilometers north of the Military Demarcation Line that separates North and South Korea. The *Daily Friday* reported it had crashed 10 kilometers north of the Demarcation Line. 25X1 []

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BRIEFS

Rhodesia:

25X1 [] Rhodesian nationalist leader Bishop Muzorewa returned to Rhodesia yesterday after six weeks of travel abroad. Muzorewa, who was greeted by a large crowd of supporters, said he wanted to talk to Prime Minister Smith, but only to arrange an immediate transfer of power from the white minority to the black majority.

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Israel

25X1 [] Israel announced yesterday a series of measures designed to reduce the country's inflation rate and improve its balance of payments. The actions include reducing food subsidies, raising gasoline prices, devaluing the pound an additional 2 percent, and cutting defense spending by \$143 million. The cutbacks--which coincide with Prime Minister Begin's visit to the US this week--amount to \$235 million, or less than 2 percent

of the previous administration's proposed budget. These steps were probably taken to enhance the new government's image, particularly in the US; they are not likely to have any real impact on the country's economic problems.

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